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HEARING ON: RATING THE RATING AGENCIES— THE STATE OF TRANSPARENCY AND COMPETITION

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Standard & Poor's Ratings Services ("Standard & Poor's"), part of Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("McGraw-Hill"), appreciates the opportunity to share its views on the issues surrounding the role of credit rating agencies in the U.S. capital markets.

Introduction

Since beginning its credit rating activities in 1916, Standard & Poor's has rated hundreds of thousands of securities issues, corporate and governmental issuers and structured financings. Standard & Poor's began its ratings activities with the issuance of credit ratings on corporate and governmental debt issues. Responding to market developments and needs, Standard & Poor's also assesses the credit quality of, and assigns credit ratings to, financial guarantees, bank loans, private placements, mortgage- and asset-backed securities, mutual funds and the ability of insurance companies to pay claims, and assigns market risk ratings to managed funds.

Today, Standard & Poor's has credit ratings outstanding on approximately 150,000 securities issues of obligors in more than 50 countries. Standard & Poor's rates and monitors developments pertaining to these securities and obligors from operations in 21 cities in 16 countries around the world. With a U.S. staff of approximately 1,250, Standard & Poor's rates more than 99.2% of the debt obligations and preferred stock issues publicly traded in the United States.

Standard & Poor's believes that over the last century credit ratings have served the U.S. securities markets extremely well, providing an effective and objective tool in the market's evaluation and assessment of credit risk. Standard & Poor's recognizes the valuable role that credit rating agencies play in the U.S. securities markets and is committed to protecting and enhancing the reputation and future of its credit ratings business. In this regard, Standard & Poor's takes great care to assure that its credit ratings are viewed by the market as highly credible and relevant, and will continue to review its practices, policies and procedures on an ongoing basis and modify or enhance them, as necessary, to ensure that integrity, independence, objectivity, transparency, credibility and quality continue as fundamental premises of its operations.

Standard & Poor's also welcomes continued discussions with the Securities and Exchange Commission (the "Commission") on the role and function of credit rating agencies in the U.S. securities market, and looks forward to the Commission's forthcoming concept release addressing issues related to credit rating agencies. Standard & Poor's believes that key to preserving the valuable role of credit rating agencies in the U.S. capital markets is the continued availability of a regulatory framework that recognizes the market as the best judge of a credit rating agency's integrity, independence, objectivity, credibility and quality. Standard & Poor's supports a more open and transparent process to designate Nationally Recognized Statistical Rating Organizations ("NRSROs"), and believes that the applicable designation criteria should continue to focus first and foremost on a rating agency's market recognition, and on the independence, objectivity and transparency of a credit rating agency's rating process.

Role and Function of Credit Rating Agencies

Credit ratings are an important component of the capital markets and have functioned effectively in the United States for close to a century. The role of credit ratings is also growing and flourishing in many countries abroad with the development of global capital markets. Credit ratings help the market to evaluate and assess credit risk effectively and efficiently, price debt securities, benchmark issues and create a robust secondary market for those issues.

Critical to a credit rating agency's ability to serve this key role in the market is its meeting the highest standards of integrity, independence, objectivity, transparency, credibility and quality. Standard & Poor's credit ratings have achieved worldwide market recognition and acceptance — not only with issuers and investors, but also with bankers, financial intermediaries and securities traders — as easy to use tools for differentiating credit quality. Underlying the credibility of Standard & Poor's credit ratings is the market's recognition of the independence and objectivity of Standard & Poor's credit ratings and rating process, and its excellent track record and reputation.

Recent Initiatives and Enhancements. Despite the changing environment, Standard & Poor's core values remain the same: to provide high-quality, objective, rigorous analytical information to the marketplace. In this regard, Standard & Poor's continuously evaluates its practices and modifies or enhances them, as necessary, so that its credit ratings process is responsive to market needs. Recent initiatives undertaken by Standard & Poor's include:

- the addition of a specific liquidity analytics discussion to its research reports for all industrial credit ratings rated "A-" and below;
- the addition of accounting expertise to address the increasing significance and complexity of accounting matters in determining credit risk and to assist in developing training programs on a variety of accounting and financial reporting topics;

- the enhancement of focus on the role of corporate governance practices in its credit ratings analysis;
- the expansion of its recovery analytics to cover expected recovery ranges for all rated bank loans and selected bonds in some sectors;
- the introduction of new, innovative written reports, including "industry report cards," which are quarterly updates of industry and issuer credit trends by sector;
- the expansion of its existing training processes to include a curriculum-based training program to keep analysts abreast of new analytical techniques in today's complex and sophisticated markets;
- the introduction of new tools designed to provide ratings analysts with supplementary information such as modeling, credit statistics and market-based indicators; and
- continuous thought leadership on issues relevant to credit markets, recent examples of which include Standard & Poor's work on pension funding and its study on the impact of fair lending laws on securitization transactions.

What is a Credit Rating? In understanding the role of credit rating agencies in the securities markets, it is important to understand what a credit rating is. A Standard & Poor's credit rating represents Standard & Poor's opinion, as of a specific date, of the creditworthiness of an obligor in general or with respect to a particular financial obligation — indeed, this is specifically recognized by the Commission in its *Report on the Role and Function of Credit Rating Agencies in the Operation of the Securities Markets, January 2003* ("SEC Rating Agency Report"). Standard & Poor's issuer- and issue-specific credit ratings can be either long-term or short-term, reflecting Standard & Poor's assessment as to a company's capacity to meet its financial commitments over a long-term or short-term time horizon. Standard & Poor's issues credit ratings in the form of symbols that are widely recognized and understood in the market. Most importantly, a credit rating is not investment advice or a recommendation and does not speak to the market price of the securities or the suitability of an investment for particular investors. Credit ratings are fundamentally different from recommendations made by equity or fixed-income analysts as to whether investors should buy, sell or hold a security, and Standard & Poor's does not serve as a fiduciary.

Standard & Poor's credit ratings are based principally on public information about an issuer and additional information that may be provided by the issuer, as well as other economic, financial and industry information that ratings analysts deem relevant and reliable. Standard & Poor's credit ratings necessarily embody assessments of future potential performance. However, since events occur that are unforeseeable or simply unknowable, Standard & Poor's regularly reviews its analyses. Once assigned, a credit rating is subject to ongoing review, or surveillance, and could be changed at any time based on newly available information. Credit ratings may also be suspended or withdrawn because of changes in the completeness, availability or reliability of information.

Standard & Poor's does not perform an audit of the rated company or otherwise undertake to verify information provided by the company; nor does Standard & Poor's audit or rate the work of the company's auditors or repeat the auditors' accounting review. Standard & Poor's relies on the integrity and quality of the company's publicly available financial reports and financial statements and expressly relies on the rated company to provide current and timely information — both at the time of the initial rating and on an ongoing basis. If an issuer refuses to provide requested information, Standard & Poor's may, depending on its view of the significance of the information requested, issue a lower rating, refuse to issue a rating or even withdraw an existing rating.

On a daily basis, Standard & Poor's issues between 500 and 1,000 rating actions around the globe. These actions include initial rating determinations, rating changes, CreditWatch listings, Outlook changes and rating affirmations. As these rating actions are Standard & Poor's opinions on creditworthiness as of specific dates, it is to be expected that there will be, from time to time, opinions that differ from those of Standard & Poor's and it is through this daily process that Standard & Poor's credit ratings are subject to constant scrutiny. Standard & Poor's focus, however, is on furnishing opinions that will, over time, prove to be as credible and relevant as possible without regard to whether others agree or disagree with its opinions. While there will be occasions when Standard & Poor's ratings are scrutinized with the benefit of hindsight, including as a result of unforeseeable or simply unknowable events, Standard & Poor's excellent track record demonstrates why its credit ratings work exceptionally well.

The excellent track record of Standard & Poor's credit ratings has been demonstrated by studies on rating trends, which have repeatedly shown that there is a clear correlation between initial ratings assigned by Standard & Poor's and the likelihood of default: the higher the initial rating, the lower the probability of default and vice versa. The information below shows the cumulative default history over the past 15 years of issuers rated by Standard & Poor's based upon the rating category they were initially assigned. This clearly demonstrates the very low probability of default of an issue initially rated in the "AAA" category (only 0.67% have defaulted in the past 15 years) contrasted with the much greater possibility of default for an issuer initially receiving Standard & Poor's lowest rating level of "CCC" (60.70% have defaulted in the past 15 years).

Rating Category	Percentage of Defaults Initially Rated in the Category
AAA	0.67
AA	1.30
A	2.88
BBB	9.77
BB	24.51
B	41.09
CCC	60.70

Rating Criteria and Methodology. Standard & Poor's credit rating business is based on the full and fair disclosure regime mandated by the U.S. federal securities laws. At the heart of the process which leads to a credit rating being issued by Standard & Poor's is an understanding between the company seeking the rating and Standard & Poor's itself. As set forth in Standard & Poor's detailed reports on rating criteria and methodologies and other publications, the company is obliged to furnish complete, timely and reliable information to Standard & Poor's on an ongoing basis. Clearly, the events of the last year or so have demonstrated the consequences for all market participants, including the credit rating agencies, when companies fail to meet their disclosure obligations or, worse, set out to defraud investors or rating agencies. The Congress and the Commission's initiatives over the last year to improve the quality, transparency and timeliness of public companies' disclosures should significantly enhance Standard & Poor's ability to evaluate a company's creditworthiness. Likewise, accounting standard initiatives to improve the transparency of financial statements should also benefit the analysis of creditworthiness.

Standard & Poor's ratings criteria and methodology, collectively, provide a framework for Standard & Poor's credit ratings process. Among other things, Standard & Poor's ratings criteria and methodology provide for specific credit analysis factors to ensure that all salient issues are considered during the credit rating process. The three main corporate credit analysis factors are: (1) the business risk of the issuer (*e.g.*, an issuer's economic, operational and competitive environment), (2) the financial risk of the issuer (*e.g.*, capital structure, financial policy, earnings, cash flow, debt, leverage and financial flexibility), and (3) the management risk of the issuer. Standard & Poor's ratings methodology also considers the industry in which an issuer conducts its business, such as consumer products and capital goods.

Standard & Poor's seeks to provide users with information to enable them to understand how Standard & Poor's analyzes creditworthiness. Standard & Poor's regularly publishes its ratings definitions, detailed reports on rating criteria and methodology and default studies demonstrating its track record, all of which are freely available to the public, in hard copy and on Standard & Poor's website. Standard & Poor's employs a consistent credit rating process, such as the use of rating committees in connection with initial ratings and rating actions and the monitoring of a company's ongoing creditworthiness through surveillance, across different types of ratings and different markets.

Information Flow in the Credit Rating Process

Sources of Information. Standard & Poor's ratings analysis relies principally on the public information provided by the issuer, including audited financial and other information contained in the issuer's annual, quarterly and current reports mandated by the U.S. federal securities laws and stock exchange and Nasdaq requirements, as well as press releases and other public disclosures of the issuer. Meetings with corporate management are typically part of the credit rating process. The purpose of such meetings is to review the company's key operating and financial plans, management policies and other credit factors that may have an impact on the company's creditworthiness.

As noted above, the rated companies are obliged to furnish complete, timely and reliable information to Standard & Poor's on an ongoing basis. Standard & Poor's also expects rated companies to provide prompt notice of all material changes to information previously provided to Standard & Poor's and any material financial and operational changes that could affect their creditworthiness.

Ongoing contact with management is also a routine component of the rating surveillance process. The primary analyst periodically contacts the rated company to discuss the company's performance and developments. If the company's performance or developments vary significantly from expectations or if a significant, new transaction or initiative is planned, Standard & Poor's will usually request a meeting with the company's management. The frequency or extent of contact with management varies with the company's risk profile, size, extent of debt outstanding and complexity. Dialogue with management is more frequent in response to significant industry events, material announcements by the company or plans by the company to pursue new financings.

In addition to information provided by the company, Standard & Poor's makes extensive use of primary and third party databases as sources of additional information. Third party data providers are a source of timely financial information on the domestic insurance and banking industries, the corporate sector and the asset-backed and residential mortgage sectors. Other sources of information include the Federal Deposit Insurance Corporation, the National Association of Insurance Commissioners, the United States Census Bureau, the Institute for Real Estate Management and the Mortgage Bankers' Association, among others.

Confidential Information. It is common during the credit rating process and ongoing surveillance for companies to provide Standard & Poor's with non-public information, such as budgets and forecasts, financial statements on a stand-alone basis, internal capital allocation schedules, contingent risks analyses and information relating to new financings, acquisitions, dispositions and restructurings. Protection of confidential information is critical to the success of Standard & Poor's business; issuers will not make such information available to Standard & Poor's if they have any concerns that Standard & Poor's will not ensure its confidentiality. Moreover, Standard & Poor's and its employees fully appreciate their obligation under the federal securities laws to protect the confidentiality of such information.

Standard & Poor's has a strict policy of mandating that such information be kept confidential. The Credit Market Services' Code of Ethics, to which Standard & Poor's employees are subject, contains detailed guidance for Standard & Poor's employees with respect to the protection of the confidentiality of information. The Code of Ethics includes a "need to know" provision providing that non-public information should only be discussed with employees involved in the specific analytic activity who need to know such information. Even when a rating is made public, Standard & Poor's policies prohibit the disclosure of confidential information in the published ratings rationale. Published rationales do, however, convey the consequences related to any non-public information considered by Standard & Poor's, thereby providing the basis for the rating decision without disclosing non-public information.

Noting the customary practice of issuers providing credit rating agencies with confidential information as part of the credit rating process, the Commission specifically excluded the transmission of confidential information to credit rating agencies from coverage under Regulation FD under the Securities Exchange Act of 1934. This exemption is consistent with the general exemption from Regulation FD for the communication of non-public information to a person who expressly agrees to maintain such information in confidence. The specific exemption from Regulation FD with respect to confidential information provided to credit rating agencies simply eliminated any question about the form of the confidentiality agreement between the parties.

Dissemination of Credit Ratings, Ratings Rationale and Rating Actions. Standard & Poor's long-standing policy has been to make its public credit ratings and the basis for such ratings generally available to the investing public without cost. Public credit ratings (which constitute 99% of Standard & Poor's credit ratings in the United States) are disseminated via real-time posts on Standard & Poor's website and through a wire feed to the news media as well as via subscription services such as Ratings Direct and Credit Wire. Subscribers do not have access to ratings or rating actions prior to the investing public.

Standard & Poor's places great importance on communication with the public. Following notification to the issuer, all changes to public credit ratings and all CreditWatch and Outlook listings are disseminated promptly through Standard & Poor's website, worldwide press releases to wire services and subscription services such as RatingsDirect and CreditWire. Standard & Poor's frequently publishes its rating rationale and the basis for credit rating changes through media releases. All media releases are posted on Standard & Poor's website. Additionally, any caller to Standard & Poor's Ratings Desk may request a rating and receive a report.

Other Publications. Standard & Poor's also regularly publishes reports and rationales that inform the market about an issuer's strengths and weaknesses, as well as key trends that could affect the issuer's creditworthiness. Around the world, Standard & Poor's annually publishes approximately 11,000 press releases, over 1,700 articles and commentary pieces on sector and industry trends, 51 editions of Credit Week (a weekly print publication on fixed-income securities) and 12 sector reports on 19 industry groups. Standard & Poor's holds over 200 telephone conferences with investors regarding fixed income topics, sponsors investor forums and conducts hundreds of print and broadcast interviews annually.

Potential Conflicts of Interest

As discussed at the outset, fundamental to any credit rating agency's credibility and the market's use of its credit ratings are both the reality of, and the public's belief in, the independence, objectivity and credibility of its credit ratings and rating process. Standard & Poor's is committed to protecting the value of its ratings franchise built over its 86-year history through uncompromising dedication to these principles, which are reflected both in the policies governing the conduct of Standard & Poor's credit ratings personnel, and the structure and operation of its credit ratings business. Standard & Poor's is reassured that there is no evidence of any perceived conflicts of interest undermining the integrity of its credit rating process. Indeed, as noted in the SEC Rating Agency Report, participants generally believed that any potential conflict of interest "has been effectively addressed by the credit rating agencies."

Credit Rating Process. Standard & Poor's credit rating process also serves to minimize the effects of any potential conflicts of interest. For example, Standard & Poor's credit ratings are assigned by rating committees and not by an individual. Standard & Poor's procedures also mandate that at least two analysts attend any meeting with a company's management.

Standard & Poor's also has had significant corporate infrastructure in place over the years dedicated to ensuring the independence, objectivity and consistency of its credit ratings — an important feature of which is the Analytical Policy Board. Chaired by the Chief Credit Officer, the Analytical Policy Board is designed to ensure the consistency of ratings criteria and methodologies used by Standard & Poor's and to review and approve new ratings criteria and methodologies. The Analytical Policy Board works to ensure consistency by reviewing and monitoring firm-wide criteria and analytical policies and by tracking the performance of credit ratings assigned by Standard & Poor's through default and transition studies, as well as through studies of the migration of rating categories. The Analytical Policy Board also, as a matter of policy, reviews sudden or multiple notch downgrades to identify criteria or policy changes that are needed. Members of the Analytical Policy Board include 11 senior level members of the industry and regional rating units, including the General Counsel for Standard & Poor's Credit Market Services unit and its Chief Accountant.

As an added measure, Standard & Poor's internally performs random audits of ratings files after credit ratings have been assigned to make sure that all documents required to assign such credit ratings have been collected.

Organizational Structure. Standard & Poor's credit ratings services operates as a standalone business, separate from Standard & Poor's non-ratings businesses. Strong operational safeguards and policies are in place to ensure operational independence of Standard & Poor's credit ratings services, both in fact and in appearance. Standard & Poor's policies restrict its credit ratings analysts from engaging, directly or indirectly, in any Standard & Poor's activities with respect to its non-ratings businesses, including any cross marketing of non-ratings services. In addition, as mentioned, there are strict firewalls to protect confidential information given to credit ratings personnel and to prevent transmission to any non-ratings personnel.

Codes of Conduct. All Standard & Poor's credit ratings personnel are subject to both Standard & Poor's Credit Market Services Guidelines and Procedures and Code of Ethics as well as McGraw-Hill's Code of Business Ethics.

These codes of conduct and guidelines include standards designed to promote:

- independence and objectivity in the credit rating process;
- honest and ethical conduct, including policies aimed at minimizing potential or perceived conflicts of personal and professional interests;
- compliance with applicable governmental rules and regulations; and
- protection of confidential information and avoidance of insider trading.

Standard & Poor's credit ratings personnel are subject to specific limitations on securities ownership and prohibitions against relationships that may give rise to a potential conflict of interest in the conduct of the employees' credit ratings work. Employees and their immediate families cannot own securities in companies with which they regularly interact or vote on during rating committee meetings. Employees are required to report all securities ownerships, all securities accounts and other potential conflicts of interest annually and to report any changes in the employees' portfolio information or potential conflict of interest within five business days of the transaction or the event triggering the potential conflict. In addition, Standard & Poor's employees are subject to provisions in McGraw-Hill's policies that restrict any employee whose duties include reporting on an industry or evaluating securities from having any relations with companies in these industries in such a way that might compromise or appear to compromise the objectivity of the employees' reports or evaluations. These policies also mandate advance disclosure to supervisors of any such potential relationships.

Standard & Poor's Code of Ethics requires that all non-public information relating to an issuer or an issue obtained by its credit ratings personnel in the course of their employment be kept confidential. The Code of Ethics includes detailed guidance for the protection of confidential information. Strict firewalls have been implemented to ensure the confidentiality of non-public client information made available to Standard & Poor's during the credit rating process. Such non-public information is not made available or used by any other McGraw-Hill business unit or any other non-ratings business of Standard & Poor's, nor is it made available to any third party without the issuer's consent.

McGraw-Hill's Code of Business Ethics requires the reporting of violations to appropriate compliance personnel and Standard & Poor's Guidelines and Procedures require annual affirmation of compliance. Failure to comply with Standard & Poor's policies could be sufficient reason for disciplinary action, including discharge and possible legal sanctions.

Credit Rating Fees. Since 1968, Standard & Poor's has charged issuers for its credit rating services. The practice was implemented because of increasing costs related to credit ratings surveillance and the growing need for more ratings coverage. Prior to that, Standard & Poor's provided its credit ratings services on the basis of subscription fees, which were not adequate to offset the increased costs of maintaining a high level of quality in this business.

The Commission's recent public hearings on rating agencies support Standard & Poor's view that issuer payment of rating fees should not raise conflict of interest concerns. As noted in the SEC Rating Agency Report, participants in the Commission's public hearings on rating agencies generally "did not believe that reliance by rating agencies on issuer fees leads to significant conflicts of interest, or otherwise calls into question the overall objectivity of credit ratings."

As noted above, Standard & Poor's credit rating process is designed to limit the opportunity for an individual, for whatever reason, to compromise the independence and credibility of a credit rating. No portion of an analyst's compensation is directly dependent on the performance of specific companies that an analyst rates or the amount of fees paid by that specific company to Standard & Poor's. Further, the influence of individual issuers on Standard & Poor's is limited as Standard & Poor's does business with over 37,000 issuers.

Most importantly, the ongoing value of Standard & Poor's credit ratings business is wholly dependent on continued market confidence in the credibility and reliability of its credit ratings. No single issuer fee or group of fees is or would ever be important enough to risk jeopardizing the agency's reputation and its future.

Competition and the NRSRO Designation Process

Today, credit rating agencies of any size or expertise and applying a wide variety of methods are free to develop and publish what the Commission has recently characterized as their "opinion, as of a specific date, of the creditworthiness of a particular company, security, or obligation." (SEC Rating Agency Report at page 5) That process of deciding what credit rating to assign has repeatedly been held entitled to strong First Amendment protections. Courts have held that credit rating agencies perform First Amendment protected functions when gathering information in connection with their credit ratings process and that, as a consequence, their ratings activities are fully entitled to the protections of the First Amendment. This includes protections from compelled disclosure of documents related to their newsgathering activities and application of the heightened liability standards generally afforded to publishers. Indeed, it is Standard & Poor's key role as a publisher of credit ratings and financial information that has been the basis for judicial recognition of its significant First Amendment protections.

Although Standard & Poor's generally has not advocated the use of NRSRO ratings in legislation and Commission rules, it recognizes that neither the Commission nor any other authorities have found a practical alternative for evaluating credit risks associated with debt and other rated securities for use in regulations. Indeed, credit ratings were developed in response to the demand of private market participants in the securities markets, and as yet the capital markets have not developed a widely accepted alternative measure to make such distinctions.

Standard & Poor's was one of the original NRSROs designated by the Commission in 1976. Its designation was based on the Commission's recognition of the widespread investor acceptance of its credit ratings, reflecting the market's confidence in Standard & Poor's independence, objectivity, credibility and transparency.

Standard & Poor's believes that the marketplace benefits from a variety of credible sources of credit information, and that the focus of any Commission regulatory initiative with respect to credit rating agencies should be on addressing concerns about the lack of transparency in the process for designating NRSROs. Standard & Poor's has consistently supported a more open, transparent designation process that would codify an administrative process providing for public notice and comment on future designations.

Great care, however, must be taken in codifying the NRSRO designation process to assure that designation criteria are not defined in a manner that interferes with or compromises the independence of the credit rating process. The primary criteria for a credit rating agency to be designated as an NRSRO should continue to be its ability to demonstrate pre-existing market recognition and financial market use of its credit ratings. In demonstrating that it meets these marketplace criteria, a credit rating agency could show evidence of the significance of the credit ratings to specific participants or segments of the market, the extent of dissemination of its ratings among investors, issuers, intermediaries and other market participants, including analysts and the financial and trade media. For example, the credit rating agency could provide evidence of the nature and number of U.S. subscribers it has for its ratings, the number of ratings assigned annually, the number of issuers or others who request that ratings be assigned, as well as evidence that securities rated by the credit rating agency are owned or traded by U.S. investors who are aware of the credit rating agency's rating of such securities.

In addition, Standard & Poor's believes it would be appropriate for the Commission, as part of its NRSRO designation process, to review information bearing on the credit rating agency's independence, objectivity, transparency and credibility. In that regard, the Commission could review the credit rating agency's policies regarding conflicts of interest and protection of confidential information, its practices with respect to the publication of credit ratings, its rating definitions and general descriptions of its rating criteria and methodology, its code of ethics and default studies demonstrating the track record of its credit ratings. In addition, such review could include consideration of factors bearing on economic and political independence — for example, ownership and organizational structure and lack of dependence on key customers.

The NRSRO designation process and the criteria for designation should not involve the Commission in the conduct of an NRSRO's business, interfere with its credit rating processes or methodologies or impose regulated entity status on a designated NRSRO. In the past, the Commission has proposed to codify as designation criteria: staffing, financial resources and organization adequate to ensure credible ratings, use of systematic rating procedures and contact with senior executives of rated companies. Any proposed inclusion of subjective criteria relating to resources, fees, methodologies and processes would neither assure market credibility and acceptance of credit ratings nor, given their necessarily vague and subjective nature, enhance the transparency of the designation process. Moreover, such criteria could suggest a role for the Commission in setting minimum capital, organizational or staffing requirements for NRSROs and risk governmental interference in the actual credit rating process or rating judgments.

There is no one model or methodology for producing sound credit ratings. Resources, procedures and form of organization are simply tools to use to build market credibility and recognition. Commission mandates with respect to NRSRO operations or rating methodologies could strike at the heart of the independence of the credit rating process and interfere with the credit rating agency's ability to serve the capital markets effectively. The financial markets have greatly benefited from the robust and healthy competition among the various NRSROs, each of which possesses a varied and constantly evolving operational and personnel structure, methodology, business focus and pool of resources. The Commission should take care not to insinuate itself, directly or indirectly, into the operations of an NRSRO or implement an NRSRO designation process that results in homogenization of credit ratings through government-prescribed minimum standards.

<u>Conclusion</u>

Given the vital role played by credit rating agencies in the securities markets, Standard & Poor's recognizes that the Congress as well as the Commission has a legitimate interest at this critical time for the U.S. securities markets in reviewing the conduct of credit rating agencies to ensure that the integrity of the credit rating process is not influenced by conflicts of interest, abuse of confidential information or other dishonest or fraudulent conduct. Standard & Poor's expects that upon completion of these reviews, the Congress and the Commission will find that the independence, objectivity and integrity that have been the hallmark of the U.S. credit rating industry have not been compromised.

Over the last century, credit rating agencies have served the U.S. capital markets, and, indeed, the capital markets around the world extremely well; the market's acceptance of their integrity, independence, objectivity and credibility has been critical to their valuable role in developing the market. Continuing this important role and extending the benefits of independent, credible rating services internationally, requires great care by the Congress and the Commission to assure that any legislative or regulatory initiative continues to preserve the independence of credit rating agencies and recognizes the market as the best judge of a credit rating agency's quality, objectivity and independence.

There is no demonstrated abuse or market failure that warrants abandoning the regulatory approach that has served investors' and the market's interests so well for so many years. Direct regulation or use of NRSRO designation criteria by the Commission that suggests a substantive role for government in the business operations of credit rating agencies or the substantive rating process are likely to be followed by other markets and implemented in a manner that results in a governmental intrusion into the actual rating process — a result that could erode the independence and, consequentially, the credibility of credit rating agencies.